

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0874-01  
Bill No.: HB 244  
Subject: Economic Development, Department of; Employees - Employers; Taxation and Revenue - Income  
Type: Original  
Date: February 19, 2015

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Bill Summary: This proposal establishes the Economic-Education Partnership Act, which allows employers to retain withholding taxes.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
General Revenue*	(\$95,134 up to \$2,000,000)	(\$60,986 up to \$2,000,000)	(\$61,653 up to \$2,000,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$95,134 up to \$2,000,000)</b>	<b>(\$60,986 up to \$2,000,000)</b>	<b>(\$61,653 up to \$2,000,000)</b>

**\*Oversight assumes an aggregate cap of \$2,000,000**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would allow qualifying employers to retain 100% of their withholding, for up to five years, equal to the amount of employer-provided education benefits to a qualified individual. The qualified individual must be pursuing a college degree in health care, engineering, or information technology fields. This tax credit has an aggregate cap of \$2 million. BAP estimates that Total State Revenues will be reduced by \$2 million within the first year.

Officials at the **Department of Revenue (DOR)** assumes this proposal creates the Economic Education Partnership Act. An employer providing educational benefits to individuals for an employment position in health care, engineering, or information technology for no more than one year may retain 100 percent of the withholding tax for five years from the first date the employer provided educational benefits. This proposal caps the amount of withholding by all employers to \$2 million. This proposal provides rulemaking authority for the Departments of Economic Development and Revenue to implement the provisions of this section.

DOR assumes that no significant changes would be needed to the new integrated Withholding Tax system other than adding a new credit type. This will require 504.36 hours of programming at a total cost of \$37,827. A manual liability would be created for any amounts that needed to be repaid. Then, an interest rate would be designated to apply.

The Withholding Tax Division will develop a new form to allow employers the ability to separately indicate the amount of "retained" withholdings similar to the MO Quality Jobs Program. Withholding Tax requires one Revenue Processing Technician I to process additional withholding correspondence.

**Oversight** assumes it is unclear how many employers would be able to qualify for this withholding and therefore, DOR should be able to absorb the administration of this program with existing staff. Should there be a significant number of filers to justify another FTE, DOR could request the additional resources through the appropriation process.

Officials at the **Department of Economic Development's Division of Business and Community Services** assume §620.3030 creates the Economic-Educational Partnership which is a \$2 million dollar tax credit program that provides reimbursement to Missouri companies that

ASSUMPTION (continued)

provide education or training benefits to their employees. The reimbursement is 100% for five years of education or training experience. The benefit is to be paid over a one year period and through the withholding of 100% of the withholding tax from the employer's employee.

DED will require one additional FTE as an Economic Development Incentive Specialist II (at \$46,928 annually). The FTE will be responsible for reviewing applications, preparing guidelines for program, and ensuring program compliance. DED assumes a cost of approximately \$75,000 to administer this program.

**Oversight** has, for fiscal note purposes only, changed the starting salary to \$37,176 to correspond to the second step above minimum for current comparable positions at DED.

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

**Oversight** assumes the creation of this new program outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be indirect impact of the proposal and will not reflect it in this fiscal note.

**Oversight** assumes this proposal allows employers who qualify to retain the withholding of employees that they pay educational benefits. The aggregate amount of withholding tax that may be retained by all employers under this section shall not exceed \$2,000,000. It is impossible to

ASSUMPTION (continued)

determine when the maximum will be met, therefore, Oversight will show an impact of \$0 (no withholding) up to the maximum \$2,000,000 in each year.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - withholding taxes retained by employer who pays educational expenses of an employee*	(Up to \$2,000,000)	(Up to \$2,000,000)	(Up to \$2,000,000)
<u>Cost</u> - Department of Revenue - computer programming	(\$37,827)	\$0	\$0
<u>Cost</u> - Department of Economic Development			
Personal Service	(\$30,980)	(\$37,548)	(\$37,923)
Fringe Benefits	(\$16,111)	(\$19,527)	(\$19,722)
Equipment and Expenses	(\$10,216)	(\$3,911)	(\$4,008)
<u>Total Cost</u> - DED	(\$57,307)	(\$60,986)	(\$61,653)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE*</b>	<b>(\$95,134 up to <u>\$2,000,000</u>)</b>	<b>(\$60,986 up to <u>\$2,000,000</u>)</b>	<b>(\$61,653 up to <u>\$2,000,000</u>)</b>

Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
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**\*Oversight assumes an aggregate cap of \$2,000,000**

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

### FISCAL IMPACT - Small Business

Small business may see a positive impact as a result of this proposal.

### FISCAL DESCRIPTION

This bill establishes the Economic Education Partnership Act. If an employer with facilities in Missouri pays for the tuition or fees for an employee or an intern who is a resident of this state to pursue an associates, bachelors, masters, or doctorate degree in health care, engineering, or information technology related programs, the employer can retain withholding taxes on its employees for up to five years. The amount of withholding taxes that the employer may retain is limited to the amount the employer spent on the employee's or intern's education. An employer is allowed to retain withholding taxes on its employees if the employer trains an individual for a job in the health care, engineering, or information technology field for no more than one year. The amount of withholding taxes that the employer may retain is limited to the amount the employer paid in wages to the individual while training him or her. The total amount of withholding tax that can be retained by all employers under these provisions cannot exceed \$2 million.

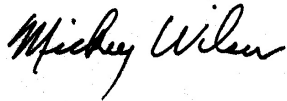
The bill requires an employer to enter into an agreement with the Department of Economic Development that requires the employer to employ the individual upon the completion of his or her degree or training for at least as long as the employer is authorized to retain withholding taxes. The department can audit employers to ensure compliance with the program requirements. An employer who fails to comply with the agreement must cease retaining any withholding tax and repay any amounts of withholding tax retained plus interest at 5% per year.

These provisions will expire seven years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Administrative Rules  
Office of the Secretary of State  
Office of Administration's Division of Budget and Planning  
Department of Revenue  
Department of Economic Development's Division of Business and Community Services



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February 19, 2015

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